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MEMORANDUM FOR DISTRIBUTION

SUBJECT: ASN(RD&A) Acquisition Offsite

Thank you all for your participation in the acquisition offsite. On considering the often-cited challenges in defense acquisition, this offsite was important for baselining the business environment in which we operate and widening the discussion on the way we operate within the environment. It would be difficult to capture the full range of the discussion within a single, concise memorandum; however, it is important to capture the bottom line and salient points.

- ## The Acquisition Environment

We are responsible to the warfighter and taxpayer to manage and execute upwards of $60 billion per year for Navy and Marine Corps development and procurement. Clearly, our first priority is to meet the needs of our Marines and Sailors fighting today's war. At the same time, we are also responsible to bring forward significant advances in capacity and capability that the Navy and Marine Corps will rely upon to maintain naval superiority well into the 21st century. Our challenge is to accomplish this in an environment characterized by constrained budgets, increasing system complexity, limited competition, a fragile industrial base operating within a tough economy, and added reporting requirements. This requires close examination of the way we do business – policies & practice, priorities, and organization – with a clear focus and priority on controlling cost. As we consider changes going forward, start with the guidance provided by Secretary Mabus: 'Nothing is sacred.'

Without question, we have equipped the Navy and Marine Corps with the most capable warfare systems in the world, today. The issue is affordability – acquisition costs are rising faster than our topline. Simply put, without deliberate, sustained action to reverse this trend, we put the future force at risk.

As discussed at the offsite, there are five pillars we will focus on: getting the requirements right, making every dollar count, performing to plan, minding the health of the industrial base, and strengthening the acquisition workforce.

- ## Getting the Requirements Right

Within the requirements process governed by OPNAV and HQMC, it is our responsibility to provide feasible technical alternatives, realistic cost and schedule estimates, and valid assessments of risk; and further, to provide affordable options to meet the services' requirements.

The DoN Gate Review process brings together senior acquisition stakeholders - the Fleet, requirements, cost estimating, budgeting, technical authority, and program management - to produce well-informed, transparent decisions on cost versus capability. The process is well-designed, and to the extent we are able to improve the process in practice—i.e., to the extent we are able to drive better-informed, timely decisions at the table during these reviews before we set our program requirements—the more effective we will be at managing our programs, controlling our costs, and meeting our requirements.

Accordingly, I have tasked the ASN(RD&A) Principal Military Deputy (PMD) to work with the stakeholders to leverage the year-plus experience gained through Gate Reviews to identify improvements in scope, scheduling, coordination with PPBES, and execution. Separate, but related, I will be tasking SYSCOM Commanders to review our methods and resources that produce program cost estimates with the intent of bringing forward best practices, improving the fidelity of program estimates, and recommending policy related to this critical activity. Coupled with this effort, the SYSCOMs will be tasked with reviewing their process for translating operational requirements into specifications and contractual requirements with the intent of identifying cost drivers and recommending changes to these derived requirements to avoid unanticipated or unnecessary cost.

- Making Every Dollar Count

Our services' requirements exceed our budget and while it is left to the budget cycle to balance the two, it is essential that, corporately, we drive efficiencies by procuring at efficient rates, leveraging our investments across multiple programs, and maintaining stability in our program from year to year. To ensure these considerations are fully addressed in POM12, DASN(M&B) will be tasked with working across PEOs, ONR and with OPNAV/P&R to formulate program alternatives that optimize affordability within the service priorities and constraints of the budget.

Program by program, we remain committed to competition at the prime and subcontract level, early prototyping, spiral development, and objective architectures. Further, we need to ensure that total ownership cost carries weight in the formulation of acquisition strategies and source selection criteria. These fundamentals will be emphasized in forthcoming policy that will target alignment of major program decisions to DoN corporate interests.

- Performing to Plan

The program manager is expected to execute within the framework of established requirements and budget. To this end and consistent with WSARA, increased emphasis will be placed on fixed price contracting, role of past performance criteria in contract awards, and effective use of incentive fees. During execution, it is important to sustain a constant effort to pursue cost reductions and bring forward recommended changes to specifications, scope, requirements, policy, acquisition strategy, or management practice that would meaningfully reduce program cost or risk without substantively impacting key requirements—regardless of what phase the program is in. Separate guidance will be issued on this 'war on cost' that includes tasking program managers to address their specific initiatives in Gate Reviews. In view

of the threat that technical baseline changes pose to cost control, DASN(A&LM) will be tasked to review and update ASN(RD&A) policy on contract changes.

We need to bring more talent and resources to bear to enable program managers to meet their challenges in execution. As discussed, a peer review process that leverages the broader experience base across the SYSCOMs and PEOs and advises on acquisition strategies, RFPs, and execution challenges would strengthen our acquisition planning and execution. ASN(RD&A) PMD will be working with the SYSCOM Commanders to implement this peer review process, maintaining the focus on providing support to the program managers.

We will continue to be challenged by cost growth during program execution, and so early-warning reporting is important to minimize the cost growth and impact. We also discussed the inability to budget for management reserve and the impact this has on the program manager's ability to manage risk within a program. This unwritten policy needs to be reviewed in the context of the Weapons System Acquisition Reform Act (WSARA), and modified to the extent it makes business sense to do so. DASN(M&B) will be tasked to lead both of these initiatives.

- Minding a Healthy Industrial Base

In the end, improving program affordability relies upon performance by industry. It's important to have a broader understanding of the issues affecting industry's performance. To assist us, I will establish an Industrial Base Council, which will provide information on the critical technical / industrial skills and capacities required by the Department of the Navy, and advise on related acquisition policy and strategies. Further, ASN(RD&A) PMD and Principal Civilian Deputy (PCD) will be working with the DoN's Executive Leadership Office to establish a course to improve mutual understanding of the Industry-Government relationship that is crucial to our success.

Beyond management at the individual program level, it's important to engage with our major defense suppliers at the corporate level to address broader portfolio performance, to acknowledge strengths, share concerns, and to consider recommendations to improve on affordable performance. We need to leverage DoN buying power effectively and align it to those who can provide superior performance. To this end, I will work with PEOs and SYSCOM CDRs to schedule periodic corporate reviews with industry commencing early in 2010.

- Acquisition Workforce

To meet our objectives, we must be smart buyers. It is well understood that the acquisition workforce has been downsized over the past decade and a half to the extent that our professional corps has been stretched too thin and we have outsourced too much core competency. Accordingly, we must rebuild our acquisition workforce through a number of parallel efforts, spanning from workforce training to hiring and in-sourcing. ASN(RD&A) PCD is the RD&A lead in working with ASN(M&RA), ASN(FM), OPNAV, and OSD on policy regarding hiring and in-sourcing, and he'll continue to work closely with SYSCOMs and PEOs in these efforts with a focus on matching workforce capabilities to our requirements.

Our Naval labs and warfare centers are an important and unique category within the acquisition workforce. Our Science and Engineering (S&E) foundation must be preserved to ensure we know how to translate operational requirements into technical requirements and properly engineered products. We also need this foundation for our future Navy-Marine Corps. I have asked the Naval Research Advisory Council (NRAC) to assess the depth and breadth of skills the DoN possesses across our S&E infrastructure and to provide a template for informing our investment and management of this core capability. Separately, I intend to review with the SYSCOMs our current practice of applying this technical resource to our current and future programs, with an eye toward strengthening our labs and warfare centers.

The DoN possesses a rich, technical workforce and infrastructure ideally suited for outreach to a broad sector of the national population. Most technical commands are currently involved in local programs which promote science, technology, and engineering. There is potentially added benefit to a more coordinated DoN-wide national program. Secretary Mabus is keenly interested in supporting such an initiative. CNR will take the lead working across the SYSCOMs, to identify current initiatives and opportunities and bring forward a recommendation that would leverage available resources to promote this worthy objective.

- <u>Final Notes</u>

These notes and initiatives are not intended to be all-inclusive, nor meant to be quick fixes. Separate memoranda will follow with greater detail related to the individual actions and initiatives coming from the offsite. I will be interested in your continued input and feedback as we move forward.

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